

CITY OF ESSEXVILLE  
BAY COUNTY  
STATE OF MICHIGAN

FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2005

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>ESSEXVILLE</b>	County <b>BAY</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/19/05</b>	Date Accountant Report Submitted to State: <b>12/30/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

**RECEIVED**  
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

**JAN 03 2006**

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

**LOCAL AUDIT & FINANCE DIV.**

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>QUAST, JANKE &amp; COMPANY</b>			
Street Address <b>1010 NORTH JOHNSON STREET</b>	City <b>BAY CITY</b>	State <b>MI</b>	ZIP <b>48708</b>
Accountant Signature <i>Jeffrey K. Janke CPA</i>		Date <i>12/30/05</i>	

CITY OF ESSEXVILLE  
BAY COUNTY  
STATE OF MICHIGAN

FINANCIAL STATEMENTS  
FISCAL YEAR ENDED June 30, 2005

CITY OFFICIALS - As of June 30, 2005

Mayor	Thomas Rehmus
Council Member	Ronald Graham
Council Member	Michael Barrow
Council Member	Dr. Richard Link
Council Member	William Hydorn
Council Member	Todd Smith
Council Member	John Connelly
Treasurer	Fran DeWyse
Clerk	Lois Englehardt
Attorney	Gerald Pergande
Director of Public Safety	Tim Weiler
City Manager	Dale Majerczyk

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***Quast, Janke and Company, P.C.***  
*Certified Public Accountants*

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*Members:*  
*American Institute of C.P.A.'s*  
*Michigan Association of C.P.A.'s*

**INDEPENDENT AUDITOR'S REPORT**

October 19, 2005

To the City Council  
The City of Essexville  
Essexville, Michigan 48732

We have audited the financial statements of the governmental activities, business-type activities, and major funds as of and for the year ended June 30, 2005 which collectively comprise the City of Essexville's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

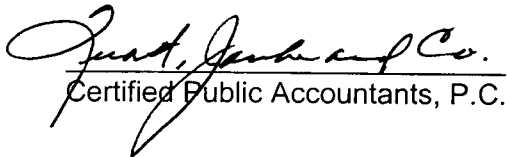
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, business-type activities, and each major fund as of June 30, 2005, and the changes in financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

To the City Council  
The City of Essexville  
October 19, 2005  
Page 2

Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The individual fund statements and schedules described in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

QUAST, JANKE AND COMPANY

  
Certified Public Accountants, P.C.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of the City of Essexville's annual Financial Report presents the Management Discussion and Analysis (MDA) of the City's financial activities during the fiscal year ended June 30, 2005. It is intended to be read as part of the City's financial statements, which immediately follow this section.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Essexville exceeded liabilities at June 30, 2005, by \$1,467,524. Of this amount all is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$ 273,139 during the year. Of this amount the assets of our governmental activities increased \$ 163,271 and the assets of our business-type activities increased by \$ 109,868.

### USING THIS REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide Financial Statements consists of a statement of net assets and a statement of activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statement report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information, other than MD&A, provides information about the required budgetary comparison information.

Other Supplementary Information provides detailed information about the General Fund.

### REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities - the Government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of activities regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is: Is the City as a whole better or worse off as a result of the year's activities? The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the City's net assets, which are the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this decision.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into two kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, such as public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business-Type Activities - This activity includes the water and sanitary sewer systems. This activity is financed primarily by user charges.

### REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The fund financial statements provide detailed information about individual, significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has two kinds of funds:

#### Governmental Funds

The Governmental Funds account of most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street; Local Street and Downtown Development Authority. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

#### Proprietary Funds

Proprietary Funds account for the City's enterprise funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary fund and the business-type activities included in the government-wide statement is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The enterprise fund includes the Water and Sewer Funds,

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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considered to be a major fund of the City. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

### GOVERNMENT- WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as useful indicator of financial position. The following analysis shows the City's total net assets at June 30, 2005.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current and other assets	\$ 2,396,836	\$ 882,033	\$ 3,278,869
Capital assets net of accumulated depreciation	<u>1,920,898</u>	<u>2,132,560</u>	<u>4,053,458</u>
Total Assets	<u>4,317,734</u>	<u>3,014,593</u>	<u>7,332,327</u>
<b>LIABILITIES</b>			
Current liabilities	312,088	177,715	489,803
Long-term liabilities	<u>4,075,000</u>	<u>1,300,000</u>	<u>5,375,000</u>
Total Liabilities	<u>4,387,088</u>	<u>1,477,715</u>	<u>5,864,803</u>
<b>NET ASSETS</b>			
Invested in capital assets net of related debt	(2,329,102)	737,560	(1,591,542)
Unrestricted	<u>2,259,748</u>	<u>799,318</u>	<u>3,059,066</u>
Total Net Assets	<u>\$ ( 69,354)</u>	<u>\$ 1,536,878</u>	<u>\$ 1,467,524</u>

The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$3,059,066.

The following analysis provides the changes in the net assets for the City's governmental and business-type activities:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>REVENUES:</b>			
Charges for services	\$ 250,081	\$ 934,992	\$ 1,185,073

## MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL REVENUES:			
Property taxes	1,266,382	0	1,266,382
State shared revenue	643,394	0	643,394
Unrestricted investment earnings	50,220	15,675	65,895
Miscellaneous	30,313	0	30,313
	<u>\$ 2,240,390</u>	<u>\$ 950,667</u>	<u>\$ 3,191,057</u>
Total Revenues	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
PROGRAM EXPENSES:			
Legislative	\$ 16,486	\$ 0	\$ 16,486
General government	383,113	0	383,113
Public safety	605,127	0	605,127
Public works	699,842	0	699,842
Recreation/cultural	76,683	0	76,683
Interest	206,506	0	206,506
Water and Sewer	0	840,799	840,799
Depreciation	89,362	0	89,362
	<u>2,077,119</u>	<u>840,799</u>	<u>2,917,918</u>
Total expenses			
INCREASE(DECREASE) IN NET ASSETS	<u>\$ 163,271</u>	<u>\$ 109,868</u>	<u>\$ 273,139</u>

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Essexville completed its year, its governmental funds reported a total fund balance of \$1,870,037, which is less than the \$1,942,365 total fund balance at June 30, 2005.

The General Fund, the operating fund for the City, ended FY05 with an \$1,012,052 balance compared to the prior year ending fund balance of \$1,038,789. The Major Street Fund Balance increased by \$10,861. The Debt Service Fund Balance increased by \$4,586. The Rubbish and Trash Fund Balance increased by \$14,505.

### INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water and Sewer Fund, which accounts for the operation and maintenance of the City's water and sewer system, ended FY05 with a \$1,536,878 net asset balance compared to prior year ending net asset balance of \$1,427,010.

### BUDGETARY HIGHLIGHTS

During the year ended June 30, 2005, the City amended the budget two (2) times. The amendments were done to cover unbudgeted expenditures. The amendments were mainly required to cover unplanned expenditures associated with projects that carried over from the prior fiscal year.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

The City's investment in capital assets, including land, buildings and improvements, equipment,

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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water systems, sewer systems, lighting systems, traffic signals and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$1,920,898 (net of accumulated depreciation) at June 30, 2005. Capital assets for business-type activities totaled \$2,132,560 (net of accumulated depreciation) at June 30, 2005. See the notes to the financial statements for more information about the City's capital assets. The major capital outlays for governmental activities during the year included a police car. For business-type activities, no major additions were incurred.

### LONG-TERM DEBT

At year end the City had \$5,645,000 in outstanding bonds and loans. All debt in the business-type and governmental activities is detailed below:

Sewer Fund - State Revolving Fund ("SFR") loan administered by the Michigan Department of Environmental Quality to construct mandated improvements at the City's wastewater treatment plant.

<u>SFR Loan 1997</u>	\$ 1,990,000
Balance June 30, 2004	1,485,000
Balance June 30, 2005	1,395,000

Infrastructure Bonds - In 1999 local voters authorized the City Council to sell up to \$5,000,000 of general obligation bonds restricted for improvements to the City's water, sewer and storm water infrastructure. These bonds were sold in three series; \$2,000,000 (January 11, 2000), \$1,500,000 (February 27, 2001) and \$1,500,000 (February 28, 2002).

<u>Infrastructure Bond - 2000 Series</u>	2,000,000
Balance June 30, 2004	1,450,000
Balance June 30, 2005	1,375,000

<u>Infrastructure Bond - 2001 Series</u>	1,500,000
Balance June 30, 2004	1,450,000
Balance June 30, 2005	1,400,000

<u>Infrastructure Bond - 2002 Series</u>	1,500,000
Balance June 30, 2004	1,500,000
Balance June 30, 2005	1,475,000

<u>Combined Series - 2000, 2001, 2002</u>	\$ 5,000,000
Balance June 30, 2004	4,400,000
Balance June 30, 2005	4,250,000

### ECONOMIC FACTORS

Elected and appointed officials must consider many factors in the preparation and the adoption of the City's annual budget. One important factor affecting the City's budget is the State of Michigan's fiscal health, because a significant source of revenue for the City's General Fund is state shared revenue, a portion of which is subject to state legislative approval. Because of the State's recent and continuing budget problems the City has seen a major reduction in state shared revenue.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Though the State Legislature held Cities harmless with respect to loss of state shared revenues in the fiscal year, continuing pressure of the State's budget will certainly result in additional reductions in this significant revenue source to the General Fund. The consequences of this revenue reduction is and will be in the future a reduction in services funded by the General Fund with public safety services at risk in the near future without additional state or local revenue to the General Fund.

By way of comparison, the City received state shared revenues in the amount of \$671,082 in the fiscal year ended June 30, 2004, \$643,394 in fiscal year ended June 30, 2005 and it is projected that the City will receive \$630,000 in fiscal year ended June 30, 2006.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to present citizens, taxpayers, customers, investors, creditors and other interested parties with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact the City of Essexville, 1104 Woodside Avenue, Essexville, MI 48732-1627.

CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENT WIDE STATEMENT OF NET ASSETS  
June 30, 2005

	Governmental Activities	Primary Government Business -Type Units	Total
ASSETS:			
Cash	\$ 2,104,430	\$ 682,002	\$ 2,786,432
Accounts receivables	24,505	75,031	99,536
Receivable from State	39,466	-	39,466
Prepaid expense	228,435	125,000	353,435
Capital assets:			
Land and improvements	490,333	-	490,333
Buildings and improvements	644,542	-	644,542
Infrastructure	88,557	-	139,514
Construction in progress	139,514	-	115,161
Equipment	115,161	-	1,163,428
Vehicles	1,163,428	-	2,520,949
	-	2,520,949	(1,109,026)
	(720,637)	(388,389)	
Accumulated depreciation			7,332,327
Total Assets	4,317,734	3,014,593	
LIABILITIES:			
Accounts payable	56,367	62,345	118,712
Accrued expenses	21,794	5,577	27,371
Customer deposits	-	3,600	3,600
Compensated absences	58,927	11,193	70,120
Notes and bonds payable	175,000	95,000	270,000
Amount due within one year	4,075,000	1,300,000	5,375,000
Amount due more than one year			
Total Liabilities	4,387,088	1,477,715	5,864,803
NET ASSETS:			
Investment in capital assets net of related debt	(2,329,102)	737,560	(1,591,542)
Unrestricted - designated	543,537	799,318	1,342,855
Unrestricted - undesignated	1,716,211	-	1,716,211
	(69,354)	1,536,878	1,467,524
Total Net Assets	\$ (69,354)	\$ 1,536,878	\$ 1,467,524

The accompanying notes are an integral part of the financial statements.  
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CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Assets Governmental Activities	Business-Type Activities	Total
<b>PRIMARY GOVERNMENT:</b>					
GOVERNMENTAL ACTIVITIES:					
Legislative	\$ 16,486	\$ -	\$ (16,486)	\$ -	\$ (16,486)
General Government	383,113	40,509	(342,604)	-	(342,604)
Public Safety	605,127	17,225	(587,902)	-	(587,902)
Public Works	699,842	192,347	(507,495)	-	(507,495)
Recreation and Cultural	76,683	-	(76,683)	-	(76,683)
Interest	206,506	-	(206,506)	-	(206,506)
Depreciation	89,362	-	(89,362)	-	(89,362)
Total governmental activities	2,077,119	250,081	(1,827,038)	-	(1,827,038)
BUSINESS-TYPE ACTIVITIES					
Water and Sewer	840,799	934,992	-	94,193	94,193
Total business-type activities	840,799	934,992	-	94,193	94,193
Total Primary Government	\$ 2,917,918	\$ 1,185,073	(1,827,038)	94,193	(1,732,845)
GENERAL PURPOSE REVENUES:					
Property taxes			1,266,382	-	1,266,382
State shared revenues			643,394	-	643,394
Unrestricted Investment earnings			50,220	15,675	65,895
Micellaneous			30,313	-	30,313
Total General Purpose Revenues			1,990,309	15,675	2,005,984
Change in Net Assets			163,271	109,868	273,139
Net Assets at beginning of year, as adjusted			(232,625)	1,427,010	1,194,385
Net Assets - End of Year			\$ (69,354)	\$ 1,536,878	\$ 1,467,524

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2005

	<u>GENERAL</u>	<u>MAJOR STREETS</u>	<u>RUBBISH &amp; TRASH</u>	<u>DEBT SERVICE</u>	<u>OTHER NONMAJOR FUNDS</u>	<u>TOTAL</u>
ASSETS:						
Cash	\$ 971,709	\$ 140,787	\$ 159,251	\$ 12,544	\$ 365,033	\$ 1,649,324
Customer receivables	-	-	18,183	-	-	18,183
Other receivables	5,110	-	-	-	1,212	6,322
Prepaid expenses	61,399	28,958	-	-	100,000	190,357
Due from other Funds	18,198	-	-	-	-	18,198
Due from State	-	28,958	-	-	10,508	39,466
<b>TOTAL ASSETS</b>	<b>\$ 1,056,416</b>	<b>\$ 198,703</b>	<b>\$ 177,434</b>	<b>12,544</b>	<b>476,753</b>	<b>\$ 1,921,850</b>
LIABILITIES:						
Accounts payable	\$ 27,140	\$ 1,683	\$ 16,212	-	5,115	\$ 50,150
Deferred revenue	-	-	-	-	-	-
Accrued expenses	17,224	658	1,070	-	2,591	21,543
Due to other funds	-	-	-	-	18,198	18,198
<b>TOTAL LIABILITIES</b>	<b>44,364</b>	<b>2,341</b>	<b>17,282</b>	<b>-</b>	<b>25,904</b>	<b>89,891</b>
FUND BALANCES:						
Unreserved, reported in:						
General Fund	1,012,052	-	-	-	-	1,012,052
Special Revenue Funds	-	234,440	160,152	-	337,208	731,800
Capital Projects Fund	-	-	-	-	113,641	113,641
Debt Service Fund	-	-	-	12,544	-	12,544
<b>Total Fund Balances</b>	<b>1,012,052</b>	<b>234,440</b>	<b>160,152</b>	<b>12,544</b>	<b>450,849</b>	<b>1,870,037</b>
<b>TOTAL LIABILITIES AND FUND BALANCE:</b>	<b>\$ 1,056,416</b>	<b>\$ 236,781</b>	<b>\$ 177,434</b>	<b>\$ 12,544</b>	<b>\$ 476,753</b>	<b>\$ 1,959,928</b>

The accompanying notes are an integral part of the financial statements.



CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS  
June 30, 2005

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,870,037

Amounts reported for governmental activities in the statement  
of net assets are different because -

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the governmental funds  
balance sheet:

Capital assets at cost	1,478,107
Accumulated depreciation	(120,736)
Debt balances are carried in the Long-Term Debt Account Group and are not reported in the Governmental Funds balance sheet	(4,308,927)

An Internal Service fund is used by the City to charge equipment rental  
costs to individual funds. The assets and liabilities of the Internal Service  
Fund is included in governmental activities of the statement of net assets

Cash	455,106
Capital assets	1,163,428
Accumulated depreciation	(599,901)
Accounts Payable and accrued rep;	(6,468)
Net adjustment	<u>1,012,165</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ (69,354)

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year ended June 30, 2005

	GENERAL	MAJOR STREETS	RUBBISH & TRASH	DEBT SERVICE	OTHER NONMAJOR FUNDS	TOTAL
REVENUES:						
Taxes	\$ 763,808	\$ -	\$ 65,715	\$ 360,594	\$ 76,265	\$ 1,266,382
State shared revenue	396,338	179,036	-	-	68,020	643,394
Licenses and permits	33,849	-	-	-	-	33,849
Charges for Services	495	-	191,852	-	-	192,347
Permits	-	-	-	-	17,225	17,225
Fines and Forfeits	6,660	-	-	-	-	6,660
Interest	29,370	4,569	3,972	1,323	10,986	50,220
Other Revenue	20,113	-	-	-	10,200	30,313
	<u>1,250,633</u>	<u>183,605</u>	<u>261,539</u>	<u>361,917</u>	<u>182,696</u>	<u>2,240,390</u>
EXPENDITURES:						
Legislative	16,486	-	-	-	-	16,486
General Government	277,779	-	-	-	-	277,779
Public Safety	502,799	-	-	-	-	502,799
Public Works	33,815	90,599	221,503	-	146,063	491,980
Cultural and Recreation	76,683	-	-	-	-	76,683
Other activities	22,506	-	-	-	26,325	48,831
Insurance/retirement	257,091	21,258	25,252	-	23,698	327,299
Capital Outlay	77,973	60,459	-	-	67,827	206,259
Debt service	-	-	-	357,331	-	357,331
Total Expenditures	<u>1,265,132</u>	<u>172,316</u>	<u>246,755</u>	<u>357,331</u>	<u>263,913</u>	<u>2,305,447</u>
EXCESS OF REVENUES OVER EXPENDITURES	(14,499)	11,289	14,784	4,586	(81,217)	(65,057)
OTHER FINANCING SOURCES (USES):						
Transfer from other funds	-	-	-	-	6,000	6,000
Transfer to other funds	(12,238)	(428)	(279)	-	(326)	(13,271)
Total Other Financing Sources (Uses)	<u>(12,238)</u>	<u>(428)</u>	<u>(279)</u>	<u>-</u>	<u>5,674</u>	<u>(7,271)</u>
NET CHANGE IN FUND BALANCES	(26,737)	10,861	14,505	4,586	(75,543)	(72,328)
FUND BALANCE - July 1, 2004	<u>1,038,789</u>	<u>223,579</u>	<u>145,647</u>	<u>7,958</u>	<u>526,392</u>	<u>1,942,365</u>
FUND BALANCE - June 30, 2005	<u>\$ 1,012,052</u>	<u>\$ 234,440</u>	<u>\$ 160,152</u>	<u>\$ 12,544</u>	<u>\$ 450,849</u>	<u>\$ 1,870,037</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
Year Ended June 30, 2005

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS                      \$        (72,328)

Amounts reported for governmental activities in the statement  
of activities are different because -

Governmental funds report capital outlays as expenditures  
while in the statement of activities, these costs are allocated  
over their estimated lives as depreciation:

Depreciation expense	(4,685)
Capital asset purchases capitalized	204,584

on the bonds as current expenses	150,000
----------------------------------	---------

Governmental funds do not report the expenses for compensated absences	(1,646)
---	---------

An Internal Service fund is used by the City to charge equipment rental  
costs to individual funds. The net revenue of the Internal Service fund  
is reported with governmental activities in the statement of activities.

Change in Net Assets	<u>(112,654)</u>
	<u>(112,654)</u>

TOTAL CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES                      \$        163,271

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE  
Essexville, Michigan

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
June 30, 2005

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	TOTAL	
<b>ASSETS:</b>				
Current Assets:				
Cash	\$ 468,235	\$ 213,767	\$ 682,002	\$ 455,106
Customer receivables	42,748	32,283	75,031	-
Other receivables	-	-	-	-
Prepays	50,000	75,000	125,000	-
Total Current Assets	560,983	321,050	882,033	455,106
Noncurrent Assets:				
Capital Assets:				
Equipment, vehicles	-	-	-	1,163,428
Water and sewer systems	2,283,023	237,926	2,520,949	-
Accumulated depreciation	(355,216)	(33,173)	(388,389)	(599,901)
Total Noncurrent Assets	1,927,807	204,753	2,132,560	563,527
Total Assets	\$ 2,488,790	\$ 525,803	\$ 3,014,593	\$ 1,018,633
<b>LIABILITIES:</b>				
Current Liabilities				
Accounts payable	\$ 26,596	\$ 35,749	\$ 62,345	\$ 5,489
Customer deposits	1,908	1,692	3,600	-
Accrued expenses	15,730	1,040	16,770	979
Loan payable current	95,000	-	95,000	-
Total Current Liabilities	139,234	38,481	177,715	6,468
Noncurrent Liabilities				
Loan payable	1,300,000	-	1,300,000	-
Total Noncurrent Liabilities	1,300,000	-	1,300,000	-
Total Liabilities	1,439,234	38,481	1,477,715	6,468
<b>NET ASSETS:</b>				
Invested in capital assets net of related debt	532,807	204,753	737,560	-
Designated for operations	516,749	282,569	799,318	-
Unrestricted	-	-	-	1,012,165
Total Net Assets	\$ 1,049,556	\$ 487,322	\$ 1,536,878	\$ 1,012,165
Reconciliation of Government Wide Statement of Net Assets:				
Net assets of business-type activities			\$ 1,536,878	

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE  
Essexville, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
Year Ended June 30, 2005

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	TOTAL	
<b>OPERATING REVENUES:</b>				
Charges for Services	\$ 524,560	\$ 410,212	\$ 934,772	\$ 156,507
Miscellaneous	65	155	220	-
Total Operating Revenues	524,625	410,367	934,992	156,507
<b>OPERATING EXPENSES:</b>				
Salaries	137,356	47,420	184,776	34,908
FICA	10,616	3,647	14,263	2,611
Operating expenses	107,246	17,689	124,935	126,529
Water purchases	-	220,735	220,735	-
Equipment rental	13,219	10,582	23,801	-
Contractual services	24,717	31,740	56,457	-
Insurance/retirement	77,889	29,588	107,477	33,696
Depreciation	65,114	9,276	74,390	84,677
Total Operating Expenses	436,157	370,677	806,834	282,421
Operating Income	88,468	39,690	128,158	(125,914)
<b>NONOPERATING REVENUES(EXPENSES)</b>				
Interest Income	8,637	7,038	15,675	11,580
Sale of Equipment	-	-	-	2,155
Interest Expense	(32,400)	-	(32,400)	-
Total Nonoperating Expenses	(23,763)	7,038	(16,725)	13,735
Income before contributions and transfers	64,705	46,728	111,433	(112,179)
Transfers Out	(1,099)	(466)	(1,565)	(475)
Change in Net Assets	63,606	46,262	109,868	(112,654)
Net Assets Beginning of Year	985,950	441,060	1,427,010	1,124,819
Net Assets End of Year	\$ 1,049,556	\$ 487,322	\$ 1,536,878	\$ 1,012,165

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE  
Essexville, Michigan

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
June 30, 2005

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	TOTAL	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 524,442	\$ 411,263	\$ 935,705	\$ 156,507
Cash received from other funds for services	-	-	-	-
Other operating cash receipts	-	-	-	-
Cash payments to suppliers for goods and services	(263,248)	(373,309)	(636,557)	(166,272)
Cash payments to employees for services	(138,776)	(47,420)	(186,196)	(34,133)
Cash payments to other funds for services	-	-	-	-
Net cash provided (used) by operating activities	122,418	(9,466)	112,952	(43,898)
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:</b>				
Transfers from other funds	-	-	-	-
Transfers to other funds	(1,099)	(466)	(1,565)	(475)
Net cash provided (used) by noncapital financing activities	(1,099)	(466)	(1,565)	(475)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition of capital assets	(112,905)	(34,266)	(147,171)	(67,614)
Proceeds from sale of capital assets	-	-	-	2,155
Interest paid on loans	(32,400)	-	(32,400)	-
Principal payments on loans	(90,000)	-	(90,000)	-
Contributed capital	-	-	-	-
Net cash provided (used) by capital and related financing activities	(235,305)	(34,266)	(269,571)	(65,459)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest on investments	8,637	7,038	15,675	11,580
Net increase (decrease) in cash	(105,349)	(37,160)	(142,509)	(98,252)
Cash beginning of year	573,584	250,927	824,511	553,358
Cash end of year	\$ 468,235	\$ 213,767	\$ 682,002	\$ 455,106
<b>RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Income (loss) from operations	\$ 88,468	\$ 39,690	\$ 128,158	\$ (125,914)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:				
Depreciation	65,114	9,276	74,390	84,677
Change in assets and liabilities:				
(Increase) decrease in due from other funds	-	-	-	-
(Increase) decrease in accounts receivable	(118)	896	778	-
Increase (decrease) in prepaids	(50,000)	(75,000)	(125,000)	-
Increase (decrease) in accounts payable	20,215	15,795	36,010	(3,436)
Increase (decrease) in accrued expenses	(1,261)	(123)	(1,384)	775
Net Cash Provided (Used) in Operating Activities	\$ 122,418	\$ (9,466)	\$ 112,952	\$ (43,898)

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE  
Essexville, Michigan

STATEMENT OF NET ASSETS  
TRUST AND AGENCY FUND  
June 30, 2005

Cash in Bank	\$	<u>69,938</u>
Due to General Fund		30
Fund Balance -		
Reserved for fringe benefits		<u>69,908</u>
	\$	<u>69,938</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A: DESCRIPTION OF REPORTING ENTITY:

The City of Essexville is located in Bay County and operates under an elected City Council (6 members) and an elected Mayor, and provides services to its residents in many areas. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B: REPORTING ENTITY:

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City hold the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit//burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Essexville has no component units.

C: BASIS OF PRESENTATION:

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of the interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identified with a specific program. Program revenue includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.



CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

D: FUND FINANCIAL STATEMENTS:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund -

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Major Street Fund -

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the City.

Rubbish and Trash Fund -

The Rubbish and Trash Fund is used to account for taxes and receipts from customers related to the provision of trash removal and brush and leaf disposal services.

Debt Service Fund -

This fund is used to accumulate tax revenues for purposes of making the several interest and principal payments on the bonds.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Propriety Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major propriety funds:

Water and Sewer Funds -

The Water and Sewer Funds are used to account for the provision of water and sewer services to the residents of the City. Activities of the funds include administration, operation and maintenance of the water system and billing and collection activities. The funds also account for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

Propriety funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a propriety fund's principal ongoing operations. Operating expenses for the propriety funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Agency Funds -

The Fringe Benefit Fund accounts for assets held by the City for funding of future liabilities. The amounts do not involve the measurement of results of operations.

E: Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for propriety funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and state shared governmental revenues. All other governmental fund revenues are recognized when received.

F: CAPITAL ASSETS -

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the entity-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	25-40 years
Infrastructure	20-40 years
Land improvements	10-20 years
Vehicles	5-10 years
Furniture and other equipment	5-10 years

G: FUND EQUITY -

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

H: COMPARATIVE DATA/RECLASSIFICATIONS -

Comparative data is not included in the City's financial statements.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

I: ACCOUNTING CHANGE -

Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the City's financial statements as a result of GASB No. 34 are as follows: A Management's Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included. Entity-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.

J: PROPERTY TAXES:

The City's property taxes are levied and become a lien each July 1<sup>st</sup>, based on the taxable valuation of property located in the City as of the preceding December 31<sup>st</sup>. These taxes are due on August 31<sup>st</sup> or with the final collection date of March 2<sup>nd</sup> before they are added to the County's delinquent tax rolls. The City's property tax revenues are recognized as revenues in the fiscal year levied to the extent they are measurable and available.

The taxable valuation of City properties totaled \$ 78,405,406. Ad Valorem taxes levied on this valuation consisted of 9.7909 mills for City operations; .86 mills for trash collection; 1.00 mills for the Downtown Development Authority; and 4.7292 mills for the general operating bond issues.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. State law requires the City to have its budget in place by April 1st. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Fund Deficits - The City had no accumulated fund balance deficits.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 3. LONG-TERM DEBT:

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Annual Ranges	Beginning Balance	Additions (Deductions)	Ending Balance	Current Portion
GOVERNMENTAL ACTIVITIES						
2000 G.O. Bond	5.25	75,000-150,000	1,450,000.00	(75,000.00)	1,375,000.00	75,000
2001 G.O. Bond	4.00	50,000-225,000	1,450,000.00	(50,000.00)	1,400,000.00	50,000
2002 G.O. Bond	4.25	25,000-200,000	<u>1,500,000.00</u>	<u>(25,000.00)</u>	<u>1,475,000.00</u>	<u>50,000</u>
Total Governmental Activities			4,400,000.00	(150,000.00)	4,250,000.00	175,000
BUSINESS TYPE ACTIVITIES						
Loan payable	2.25	90,000-120,000	1,485,000.00	(90,000.00)	1,395,000	95,000

Annual debt service principal requirements:

	<u>G.O. Bonds</u>	<u>Loan Payable</u>
2005	\$ 175,000	\$ 95,000
2006	200,000	95,000
2007	250,000	100,000
2008	250,000	100,000
2009	275,000	100,000
2010	300,000	105,000
2011	350,000	105,000
2012	375,000	110,000
2013	450,000	110,000
2014	500,000	115,000
2015	550,000	120,000
2016	575,000	120,000
2017	-	120,000

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balance July 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 456,240	\$ 34,093	\$ -	\$490,333
Capital assets being depreciated				
Buildings and improvements	637,642	6,900	-	644,542
Construction in progress	79,180	60,334	-	139,514
Infrastructure	-	88,557	-	88,557
Vehicles	1,095,814	67,614	-	1,163,428
Furniture and equipment	<u>100,461</u>	<u>14,700</u>	<u>-</u>	<u>115,161</u>
Subtotal	2,369,337	272,198	-	2,641,535
Less accumulated depreciation	<u>631,275</u>	<u>89,362</u>	<u>-</u>	<u>720,637</u>
Net capital assets	<u>\$1,738,062</u>	<u>\$ 182,836</u>	<u>\$ -</u>	<u>\$1,920,898</u>
Business -type activities:				
Capital assets being depreciated				
Buildings and improvements	1,880,619	-	-	1,880,619
Water and sewer distribution systems	369,596	138,366	-	507,962
Furniture and equipment	<u>123,563</u>	<u>8,805</u>	<u>-</u>	<u>132,368</u>
Subtotal	2,373,778	147,171	-	2,520,949
Less accumulated depreciation	<u>313,999</u>	<u>74,390</u>	<u>-</u>	<u>388,389</u>
Total net capital assets	<u>\$2,059,779</u>	<u>\$ 72,781</u>	<u>\$ -</u>	<u>\$2,132,560</u>

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	<u>\$ 18,198</u>	DDA	<u>\$ 18,198</u>

NOTE 6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A. LEGAL COMPLIANCE:

Act 217, PA 1982, authorizes the City to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loans associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan.

All City deposits were in compliance with state statutes.

B. DEPOSITS:

Deposits are carried at cost. Deposits of the City are maintained at Independent Bank, Wolverine Bank and Standard Federal Bank, federally insured banks.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the City's cash deposit at June 30, 2005 are as follows:

<u>Deposit</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 300,000
Uninsured and Uncollateralized	<u>2,596,370</u>
Total	<u>\$ 2,896,370</u>

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 7.     DEFINED BENEFIT PENSION PLAN:

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publically available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan, 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the collective bargaining units and requires no contribution from the employees.

Annual Pension Cost

For the year ended June 30, 2005, the City's annual pension cost for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using an entry age normal funding method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent to 4.2 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase annually 2.5 percent per year, after retirement.

At December 31, 2004, the unfunded actuarial accrued liability was \$ 794,476 determined as follows :

Actuarial Accrued Liability :

Retirees and beneficiaries currently receiving benefits	\$ 3,273,822
Terminated employees not yet receiving benefits	52,948

Current employees -

Accumulated employee contributions	
Including allocated investment income	496,574
Employer financed	<u>1,609,567</u>

Total Actuarial Accrued Liability	5,432,911
-----------------------------------	-----------

Net Assets Available for Benefits at Actuarial Value	<u>4,638,435</u>
Unfunded Actuarial Accrued Liability	\$ 794,476

For the fiscal year beginning July 1<sup>st</sup>, 2005 the annual required contribution based on valuation payroll will be \$ 93,756 based on an amortization factor of .053632.



CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 8. RISK MANAGEMENT :

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Risk Management Authority a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based on property coverage of its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any or the past three fiscal years.

The City manages its workers' compensation by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks thorough commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 753,842	\$ 753,842	\$ 763,808	\$ 9,966
State revenue sharing	355,326	355,326	396,338	41,012
Licenses and permits	27,725	36,125	33,849	(2,276)
Charges for services	50	50	495	445
Interest	14,325	14,325	29,370	15,045
Fines and forfeits	2,400	2,400	6,660	4,260
Other Revenue	11,600	11,600	20,113	8,513
Total Revenues	1,165,268	1,173,668	1,250,633	76,965
EXPENDITURES:				
Legislative	15,459	16,609	16,486	123
General Government				
City Manager	77,203	74,453	74,134	319
Elections	10,580	8,580	7,590	990
Mayor	4,499	4,499	4,477	22
Assessor	19,672	19,672	19,035	637
Attorney	25,000	27,500	25,303	2,197
Board of Review	1,207	1,207	823	384
Treasurer	40,360	37,360	35,786	1,574
Clerk	72,602	69,602	66,242	3,360
City Hall	36,413	40,163	40,689	(526)
Accounting and audit	3,400	3,700	3,700	-
Public Safety				
Fire	43,137	41,137	38,688	2,449
Police	487,185	476,886	464,111	12,775
Public Works				
Sidewalk repair	28,830	28,831	20,738	8,093
Department of Public works	16,700	16,700	13,077	3,623
Cultural and Recreation				
Parks and recreation	15,690	25,690	25,154	536
Community relations	7,500	56,750	51,529	5,221
Other activities	83,673	28,773	22,506	6,267
Insurance/retirement	229,531	250,031	257,091	(7,060)
Capital outlay	80,500	80,500	77,973	2,527
Total Expenditures	1,299,141	1,308,643	1,265,132	43,511
OTHER FINANCING SOURCES (USES):				
Transfer to other funds	27,036	17,536	12,238	5,298
NET CHANGE IN FUND BALANCE	(160,909)	(152,511)	(26,737)	28,156
FUND BALANCE - BEGINNING OF YEAR	1,038,789	1,038,789	1,038,789	-
FUND BALANCE - END OF YEAR	\$ 877,880	\$ 886,278	\$ 1,012,052	\$ 125,774

CITY OF ESSEXVILLE  
Essexville, Michigan

MAJOR STREET FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
State Grants	\$ 169,532	\$ 169,532	\$ 179,036	\$ 9,504
Interest and Rentals	3,428	3,428	4,569	1,141
Total Revenues	172,960	172,960	183,605	10,645
EXPENDITURES:				
Storm drainage	18,426	18,426	7,361	11,065
Maintenance	31,617	31,617	26,588	5,029
Traffic services	14,809	14,809	13,063	(1,746)
Winter maintenance	31,615	31,615	28,638	(2,977)
Adminiatration	16,068	16,068	14,949	1,119
Capital outlay	170,000	170,000	60,459	109,541
Insurance/retirement	23,745	23,745	21,258	(2,487)
Total Expenditures	306,280	306,280	172,316	119,544
EXCESS REVENUES OVER EXPENDITURES	(133,320)	(133,320)	11,289	144,609
OTHER FINANCING SOURCES (USES)				
Transfer to other fund	637	637	428	(209)
Excess (deficiency) of revenues over expenditures and other uses	(133,957)	(133,957)	10,861	144,818
FUND BALANCE - BEGINNING OF YEAR	223,579	223,579	223,579	-
FUND BALANCE - END OF YEAR	\$ 89,622	\$ 89,622	\$ 234,440	\$ 144,818

CITY OF ESSEXVILLE  
Essexville, Michigan

RUBBISH AND TRASH FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 65,522	\$ 65,522	\$ 65,715	\$ 193
Charges for services	188,320	188,320	191,852	3,532
Interest	1,667	1,667	3,972	2,305
Other	100	100	-	(100)
Total Revenues	255,609	255,609	261,539	5,930
EXPENDITURES:				
Administrative	2,976	2,975	2,317	(658)
Rubbish collection	187,180	184,681	189,556	4,875
Brush and leaves	40,099	37,599	29,630	(7,969)
Insurance/retirement	20,159	25,159	25,252	93
Total Expenditures	250,414	250,414	246,755	(3,659)
EXCESS REVENUES OVER EXPENDITURES	5,195	5,195	14,784	9,589
OTHER FINANCING SOURCES (USES)				
Transfer to other funds	427	427	279	(148)
Excess (deficiency) of revenues over expenditures and other uses	4,768	4,768	14,505	9,441
FUND BALANCE - BEGINNING OF YEAR	145,647	145,647	145,647	-
FUND BALANCE - END OF YEAR	\$ 150,415	\$ 150,415	\$ 160,152	\$ 9,441

CITY OF ESSEXVILLE  
Essexville, Michigan

BOND DEBT SERVICE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 359,757	\$ 360,257	\$ 360,594	\$ 337
Interest	500	200	1,323	1,123
Total Revenues	360,257	360,457	361,917	1,460
EXPENDITURES:				
Principal	150,000	150,000	150,000	-
Interest	208,757	208,757	206,506	(2,251)
Contractual	1,000	1,000	825	(175)
Total Expenditures	359,757	359,757	357,331	(2,426)
EXCESS REVENUES OVER EXPENDITURES	500	700	4,586	3,886
FUND BALANCE - BEGINNING OF YEAR	7,958	7,958	7,958	-
FUND BALANCE - END OF YEAR	\$ 8,458	\$ 8,658	\$ 12,544	\$ 3,886

OTHER SUPPORTING INFORMATION

CITY OF ESSEXVILLE  
Essexville, Michigan

COMBINING BALANCE SHEET  
NON MAJOR GOVERNMENTAL FUNDS  
June 30, 2005

ASSETS	SPECIAL REVENUE FUNDS				Total Special Revenue Funds	CAPITAL PROJECTS FUND	TOTAL
	Local Street Fund	D.D.A. Fund	Justice Training	Inspection		Street Repairs & Construction	
Cash	\$ 173,132	\$ 148,552	\$ 4,819	\$ 951	\$ 327,454	\$ 37,579	\$ 365,033
Due from State	10,508	-	-	-	10,508	-	10,508
Prepaid Expenses	-	25,000	-	-	25,000	75,000	100,000
Accounts Receivable	-	-	-	150	150	1,062	1,212
Due from Dbt Fund	-	-	-	-	-	-	-
Total Assets	\$ 183,640	\$ 173,552	\$ 4,819	\$ 1,101	\$ 363,112	\$ 113,641	\$ 476,753
<u>LIABILITIES AND FUND BALANCE</u>							
Due to General Fund	\$ -	\$ 18,198	\$ -	\$ -	\$ 18,198	\$ -	\$ 18,198
Accounts payable	1,582	3,508	25	-	5,115	-	5,115
Accrued payroll	1,693	427	-	471	2,591	-	2,591
	3,275	22,133	25	471	25,904	-	25,904
Fund balance	180,365	151,419	4,794	630	337,208	113,641	450,849
	\$ 183,640	\$ 173,552	\$ 4,819	\$ 1,101	\$ 363,112	\$ 113,641	\$ 476,753



CITY OF ESSEXVILLE  
Essexville, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NON MAJOR GOVERNMENTAL FUNDS  
Year ended June 30, 2005

	SPECIAL REVENUE FUNDS				Total Special Revenue Funds	CAPITAL PROJECTS FUND Street repairs & Construction	TOTAL
	Local Street Fund	D.D.A. Fund	Justice Training	Inspection			
REVENUES:							
State Shared Revenue	\$ 64,955	\$ -	\$ 3,065	\$ -	\$ 68,020	\$ -	\$ 68,020
Property Taxes	-	76,265	-	-	76,265	-	76,265
Permits	-	-	-	17,225	17,225	-	17,225
Interest	3,551	4,495	139	-	8,185	2,801	10,986
Other Revenues	-	10,200	-	-	10,200	-	10,200
	<u>68,506</u>	<u>90,960</u>	<u>3,204</u>	<u>17,225</u>	<u>179,895</u>	<u>2,801</u>	<u>182,696</u>
EXPENDITURES:							
Public Works	80,672	65,391	-	-	146,063	-	146,063
Insurance/Retirement	20,974	-	-	2,724	23,698	-	23,698
Other Activities	-	-	4,518	21,257	25,775	550	26,325
Capital Outlay	-	-	-	-	-	67,827	67,827
	<u>101,646</u>	<u>65,391</u>	<u>4,518</u>	<u>23,981</u>	<u>195,536</u>	<u>68,377</u>	<u>263,913</u>
Total Expenditures							
	<u>101,646</u>	<u>65,391</u>	<u>4,518</u>	<u>23,981</u>	<u>195,536</u>	<u>68,377</u>	<u>263,913</u>
EXCESS OF REVENUES OVER EXPENDITURES	(33,140)	25,569	(1,314)	(6,756)	(15,641)	(65,576)	(81,217)
OTHER FINANCING SOURCES:							
Transfers from (to) other funds	(326)	-	-	6,000	5,674	-	5,674
	<u>(33,466)</u>	<u>25,569</u>	<u>(1,314)</u>	<u>(756)</u>	<u>(9,967)</u>	<u>(65,576)</u>	<u>(75,543)</u>
NET CHANGES IN FUND BALANCE							
	<u>(33,466)</u>	<u>25,569</u>	<u>(1,314)</u>	<u>(756)</u>	<u>(9,967)</u>	<u>(65,576)</u>	<u>(75,543)</u>
FUND BALANCE - July 1, 2004	213,831	125,850	6,108	1,386	347,175	179,217	526,392
	<u>213,831</u>	<u>125,850</u>	<u>6,108</u>	<u>1,386</u>	<u>347,175</u>	<u>179,217</u>	<u>526,392</u>
FUND BALANCE - June 30, 2004	\$ 180,365	\$ 151,419	\$ 4,794	\$ 630	\$ 337,208	\$ 113,641	\$ 450,849
	<u>\$ 180,365</u>	<u>\$ 151,419</u>	<u>\$ 4,794</u>	<u>\$ 630</u>	<u>\$ 337,208</u>	<u>\$ 113,641</u>	<u>\$ 450,849</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
For the Year Ended June 30, 2005

REVENUES:

Advalorem taxes -	
Current taxes	\$ 740,140
Interest, penalties and fees	23,668
Total Advalorem Taxes	<u>763,808</u>
Licenses and Permits -	
Cable television	33,536
Cat/dog/liquor licenses	111
Miscellaneous	202
Total Licenses and Permits	<u>33,849</u>
State Revenues -	
Sales taxes	396,338
Total State Revenues	<u>396,338</u>
Charges for Services -	
Service fees	495
Total Charges for Services	<u>495</u>
Fines and Forfeits -	
Ordinance fines	5,846
Parking fines	814
Total Fines and Forfeits	<u>6,660</u>
Miscellaneous -	
Investment	29,370
Metro Act	-
Lease	12,300
Miscellaneous	7,813
Total Miscellaneous	<u>49,483</u>
Total Revenues	\$ <u>1,250,633</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
For the Year Ended June 30, 2005

REVENUES:	<u>ACTUAL</u>
Advalorem taxes -	
Current taxes	\$ 740,140
Interest, penalties and fees	23,668
Total Advalorem Taxes	<u>763,808</u>
Licenses and Permits -	
Cable television	
Cat/dog/liquor licenses	33,536
Miscellaneous	111
Total Licenses and Permits	<u>202</u>
	33,849
State Revenues -	
Sales taxes	
Total State Revenues	<u>396,338</u>
	396,338
Charges for Services -	
Service fees	
Total Charges for Services	<u>495</u>
	495
Fines and Forfeits -	
Ordinance fines	
Parking fines	5,846
Total Fines and Forfeits	<u>814</u>
	6,660
Miscellaneous -	
Investment	
Metro Act	29,370
Lease	-
Miscellaneous	12,300
Total Miscellaneous	<u>7,813</u>
	49,483
Total Revenues	\$ <u>1,250,633</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE (continued)  
For the Year Ended June 30, 2005

EXPENDITURES:	ACTUAL
Legislative -	
City Council	
Salaries	\$ 6,000
FICA	459
Other expenses	10,027
Total City Council	<u>16,486</u>
General Government -	
Mayor	
Salaries	1,300
FICA	99
Other expenses	3,078
Total Mayor	<u>4,477</u>
City Manager	
Salaries	63,893
FICA	4,871
Other expenses	5,370
Total City Manager	<u>74,134</u>
Elections	
Salaries	4,006
Other expenses	3,584
Total Elections	<u>7,590</u>
Assessor	
Salaries	14,865
FICA	1,137
Other expenses	3,033
Total Assessor	<u>19,035</u>
City Attorney	
Supplies and Fees	25,303
City Clerk	
Salaries	46,928
FICA	3,976
Other expenses	15,338
Total City Clerk	<u>66,242</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE (continued)  
For the Year Ended June 30, 2005

	<u>ACTUAL</u>
EXPENDITURES:	
General Government (cont.)	
Accounting and Audit	
Audit	\$ 3,700
Total Accounting and Audit	<u>3,700</u>
Board of Review	
Salaries	750
FICA	57
Education and Training	-
Other expenses	16
Total Board of Review	<u>823</u>
Treasurer	
Salaries	28,509
FICA	2,172
Other expenses	5,105
Total Treasurer	<u>35,786</u>
City Hall	
Salaries	3,063
FICA	307
Other expenses	37,319
Total City Hall	<u>40,689</u>
Total General Government	<u>277,779</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE (continued)  
For the Year Ended June 30, 2005

EXPENDITURES:	<u>ACTUAL</u>
Public Safety -	
Fire Department	
Salaries	\$ 20,118
FICA	1,780
Other expenses	12,240
Equipment	4,550
Total Fire Department	<u>38,688</u>
Police Department	
Salaries	366,111
FICA	28,382
D.A.R.E. expenses	573
Other expenses	69,045
Total Police Department	<u>464,111</u>
Total Public Safety	502,799

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE (continued)  
For the Year Ended June 30, 2005

EXPENDITURES:	<u>ACTUAL</u>
Public Works -	
Department of Public Works	
Salaries	
FICA	\$ -
Other expenses	-
Total Department of Public Works	<u>13,077</u>
	13,077
Sidewalk Repair and Construction	
Salaries	
FICA	10,110
Other expenses	832
Total Sidewalk Repair and Construction	<u>9,796</u>
	20,738
Total Public Works	
	33,815

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE (continued)  
For the Year Ended June 30, 2005

	<u>ACTUAL</u>
EXPENDITURES:	
Culture and recreation -	
Parks and Recreation	
Salaries	\$ 9,874
FICA	849
Other expenses	<u>14,431</u>
Total Parks and Recreation	25,154
Community Relations	
Civic Betterment	5,677
Community Schools	2,500
Street Lights	<u>43,352</u>
Total Community Relations	51,529
Total culture and recreation	76,683
Other activities -	
Forestry	
Salaries	6,208
FICA	473
Other expenses	<u>14,952</u>
Total Forestry	21,633
Planning and Board of Appeals	
Salaries	-
FICA	-
Other expenses	<u>873</u>
Total Planning and Board of Appeals	873
Total Other Activities	22,506
Insurance/retirement	257,091
Capital projects	77,973
OTHER FINANCING SOURCES AND (USES):	
Transfer to other funds	<u>(12,238)</u>
TOTAL EXPENDITURES	1,277,370
EXCESS OF REVENUES OVER EXPENDITURES	(26,737)
FUND BALANCE - July 1, 2004	<u>1,038,789</u>
FUND BALANCE - June 30, 2005	<u><u>1,012,052</u></u>



# Quast, Janke and Company, P.C.

Certified Public Accountants

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BAY CITY, MICHIGAN 48708

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Ned E. Kleinke, C.P.A.

David G. Gwizdala, C.P.A.

Members:

American Institute of C.P.A.'s  
Michigan Association of C.P.A.'s

October 19th, 2005

Mr. Dale Majerczyk, City Manager  
City of Essexville  
1107 Woodside Avenue  
Essexville, MI 48732

RECEIVED  
DEPT. OF TREASURY

JAN 03 2006

LOCAL AUDIT & FINANCE DIV.

Dear Mr. Majerczyk,

In planning and performing our audit of the financial statements of the City of Essexville for the year ended June 30, 2005, we considered the internal control structure to determine our auditing procedures necessary to express an opinion on the financial statements and not to provide assurance on the internal control structure.

This letter by nature is critical, that is, only deficiencies are noted, and it does not include our observations on the many strong features of the organization's internal control. This letter addresses those items that we are required to bring to your attention. Accordingly, this letter does not recite the significant changes that have been made to the accounting system in correcting prior deficiencies nor does it reflect on the many sound controls and level of proficiency and knowledge of the accounting system and its personnel.

In reviewing your budget for the year ended June 30<sup>th</sup>, 2005, we noticed an area of the budget not in compliance with Public Act 621 of 1978 (The Uniform Budget and Accounting Act). Section 18(3) of that Act prohibits the City from incurring expenditures in excess of the amount appropriated. The following variance was noted :


	<u>Budgeted</u>	<u>Expended</u>	<u>Variance</u>
General Fund -			
Insurance/Retirement	\$ 250,031	\$ 257,091	\$ 7,060
Trash Fund-			
Rubbish Collection	184,681	189,556	4,875
Sewer Fund -			
Treatment Plant	326,498	331,605	5,107

We suggest that the budget be reviewed periodically so amendments can be made prior to the expenditure of any funds that exceed the budgeted amount.

This letter has been prepared for your information and may be distributed at your discretion.

Sincerely,

QUAST, JANKE AND COMPANY

  
Certified Public Accountants, P.C.